

## Message Text

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R 070800Z JUL 78  
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TO SECSTATE WASHDC 5968  
INFO AMEMBASSY BELGRADE  
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AMEMBASSY BUDAPEST  
AMCONSUL KRAKOW POUCH  
AMCONSUL LENINGRAD  
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AMEMBASSY PARIS  
AMCONSUL POZNAN POUCH  
AMEMBASSY PRAGUE  
AMEMBASSY SOFIA  
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C O N F I D E N T I A L SECTION 1 OF 3 WARSAW 5632

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1. BEGIN INTRODUCTION AND SUMMARY. FOR POLAND THE MONTH OF JUNE 1978, DOMINATED DURING ITS LAST THREE DAYS BY THE ENTRY OF THE FIRST POLISH COSMONAUT INTO SPACE, HAS ALSO BEEN A RECORD MONTH FOR DEMONSTRATION OF INCREASED ECONOMIC TIES WITH THE SOVIET UNION.

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EARLY IN JUNE, SOVIET MINISTER OF AVIATION INDUSTRY VASILIIY KAZAKOV, LED A DELEGATION TO THE POZNAN FAIR WHERE HE STRESSED NEW SOVIET CONTRACTS WITH THE POLISH AVIATION INDUSTRY. ON JUNE 21, SOVIET VICE PREMIER LEONID SMIRNOV AND A LARGE DELEGATION ARRIVED FOR A WEEK'S VISIT WHICH CENTERED ON CELEBRATIONS FOR COMPLETION OF THE FIRST STAGE OF THE KATOWICE STEEL MILL, BEING CONSTRUCTED WITH SOVIET AID. THREE OTHER IMPORTANT JUNE VISITORS WERE S.A. SKACHKOV,

CHAIRMAN OF THE SOVIET STATE COMMITTEE FOR FOREIGN ECONOMIC RELATIONS

,  
SOVIET MINISTER OF SHIPBUILDING INDUSTRY MIKHAIL YEGOROV, AND  
SOVIET MINISTER OF IRON AND STEEL MINISTRY KAZANETS. FROM JUNE 19-23  
A HIGH-LEVEL POLISH DELEGATION LED BY VICE PREMIER MIECZYSLAW  
JAGIELSKI VISITED THE SOVIET UNION FOR TALKS WITH KOSYGIN ON STEPPED-  
UP ECONOMIC AND SCIENTIFIC COOPERATION. AND A FEW DAYS LATER, POLISH  
DEFENSE MINISTER AND ARMY GENERAL JARUZELSKI ARRIVED IN MOSCOW FOR  
TALKS WITH SOVIET DEFENSE MINISTER USTINOV AND CELEBRATION OF THE  
LAUNCHING OF THE FIRST POLISH COSMONAUT.

2. WE EVALUATE THIS ACCELERATED ACTIVITY AS DIRECTLY RELATED TO THE  
JAROSZEWICZ-KOSYGIN TALKS ON INCREASED POLISH-SOVIET ECONOMIC  
INTEGRATION WHICH TOOK PLACE IN MOSCOW EARLY THIS YZSR AND WERE  
CONTINUED DURING THE VISIT OF GOP PLANNING CHIEF WRZASZCZYK TO  
MOSCOW IN MARCH. CONCLUSIONS REACHED IN THOSE MEETINGS WERE PROBABLY  
APPROVED DURING GIEREK'S VISIT TO MOSCOW IN APRIL. THE LEVEL AND EXTEN-  
SIVE

OF THE JUNE VISITS REVEAL THE SOLID GRIP WHICH THE USSR HAS ON THE  
POLISH ECONOMY AND THE RELATIVE EASE WITH WHICH THEY CAN  
EXPLOIT POLAND'S ECONOMIC DIFFICULTIES TO OBTAIN THEIR OBJECTIVES.  
IT ALSO SEEMS INCREASINGLY APPARENT THAT THE HUGE KATOWICE STEEL  
MILL, WITH ITS DIRECT WIDE-GAUGE RAILWAY LINE TO SOVIET TERRITORY,  
WILL BE ONE OF THE SOVIET UNION'S SHOWPIECE PROJECTS IN EASTERN  
EUROPE, AS WELL AS A MAJOR INSTRUMENT OF CEMA INTEGRATION  
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AND INTER-DEPENDENCY. END INTRODUCTION AND SUMMARY.

3. IN THE FOLLOWING PARAGRAPHS WE REVIEW THE MAJOR EVENTS IN THE  
SOVIET-POLISH ECONOMIC RELATIONS DURING THE PAST MONTH AND COMMENT  
ON THEIR SIGNIFICANCE FOR POLAND'S RELATIONS WITH THE USSR OVER  
THE NEXT FEW YEARS.

A. KAZAKOV'S VISIT TO POZNAN. AS OFFICIAL SOVIET REPRESENTATIVE TO  
THE POZNAN FAIR, AVIATION INDUSTRY MINISTER VASILY KAZAKOV MADE A  
LOUD, BLUSTERY SPEECH AT THE OPENING OF THE SOVIET PAVILION ON  
JUNE 11, LAUDING POLISH SUPPORT FOR SOVIET AVIATION IN CONSTRUCTING  
PARTS OF THE IL-82 AIRBUS AND CONTRACTING TO BE THE SOLE PRODUCER OF  
THE AN-28 SHORT-RANGE PASSENGER JET. ACCOMPANIED BY SEVERAL HIGH  
OFFICIALS FROM HIS MINISTRY, KAZAKOV LATER VISITED THE MAIN POLISH  
AIRCRAFT MANUFACTURING CENTER NEAR MIELEC. (COMMENT. WE DO NOT KNOW  
HOW MUCH OF THE TOTAL CAPACITY OF POLISH AIRCRAFT INDUSTRY --  
WHICH ALSO HAS COOPERATION AGREEMENTS WITH UNITED TECHNOLOGIES  
OF THE US -- WILL BE TAKEN UP BY PRODUCTION OF THE AN-28. END  
COMMENT.)

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C O N F I D E N T I A L SECTION 2 OF 3 WARSAW 5632

B. VICE PREMIER LEONID SMIRNOV AND COMPANY. SMIRNOV'S SEVEN DAYS IN  
POLAND WERE SPENT MAINLY IN KATOWICE WHERE HE TOURED THE STEEL MILL  
AND SEVERAL NEARBY INDUSTRIAL INSTALLATIONS. HE WAS ACCOMPANIED  
THROUHGOUT BY MIKHAIL SYERGEYCHUK, DEPUTY CHAIRMAN OF THE SOVIET  
STATE COMMITTEE FOR FOREIGN ECONOMIC RELATIONS (SCFER)  
USSR MINISTER OF FERROUS METALLURGY KAZANETS AND VICE MINISTER  
OF HEAVY MACHINERY INDUSTRY ANDREI EISMONT (PHON.). DURING THE  
FESTIVITIES FOR THE COMPLETION OF THE FIRST STAGE OF THE KATOWICE  
PROJECT, SMIRNOV WAS JOINED BY SCFER CHAIRMAN SEMEN SKACHKOV WHO CAME  
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FROM MOSCOW FOR JUST TWO DAYS. SMIRNOV ALSO VISITED GDANSK AND GDYNIA  
WHERE HE TOURED THE SHIPYARDS AND PARTICIPATED IN THE LAUNCHING OF

THE MARSHAL GRECHKO, A 116,000 TON OBO (OIL AND BULK CARGO) VESSEL, SAID TO BE THE LARGEST SHIP EVER BUILT IN POLISH YARDS. THE MARSHAL GRECHKO IS THE 88TH SHIP TO BE BUILT IN GDYNIA FOR THE USSR, BRINGING THE TOTAL TONNAGE OF POLISH SHIPPING BUILT FOR THE SOVIET UNION PAST THE ONE MILLION MARK.

C. CELEBRATION OF COMPLETION OF FIRST STAGE OF KATOWICE STEEL MILL. FESTIVITIES AT KATOWICE ON JUNE 24 FOR COMPLETION OF STAGE ONE WERE A GALA AFFAIR WHICH WOULD HAVE BEEN AS APPROPRIATE IN KRIVOI ROG OR MAGNITOGORSK AS IN POLAND. TRUE, THE ENTIRE POLISH PARTY AND GOVERNMENT LEADERSHIP WAS PRESENT, FROM GIEREK TO A NUMBER OF REGIONAL GOVERNMENTAL OFFICIALS, BUT THE PRESENCE OF VICE PREMIER SMIRNOV, TOGETHER WITH SKACHKOV, A MAJOR NAME IN IMPORTANT SOVIET ECONOMIC AID PROJECTS, AND THE OVERALL RANK AND SIZE OF SMIRNOV'S DELEGATION MADE THE SOVIET ROLE IN PROVIDING "ASSISTANCE" VERY CLEAR. AN EMBASSY OFFICER WHO HAPPENED TO BE TRAVELLING BY THE STEEL MILL ON THE 24TH REPORTED MASSED SOVIET AND POLISH FLAGS AT ENTRANCES AND MAIN ROAD INTERSECTIONS, PLUS HUGE POSTERS AND BANNERS PROCLAIMING SUCH "VIRTUES" AS POLISH-SOVIET BROTHERHOOD AND COOPERATION, ETERNAL FRIENDSHIP, AND POLISH GRATITUDE FOR SOVIET AID -- A PROPAGANDA BARRAGE WHICH THOUGH NORMAL IN THE USSR IS NOT AT ALL FREQUENT IN POLAND. PRESS REPORTS ON THE CELEBRATION CLAIMED PRODUCTION OF 3.7 MILLION TONS OF STEEL SINCE THE PLANT WAS BEGUN SIX YEARS AGO AND FUTURE PRODUCTION OF NINE MILLION TONS ANNUALLY. THE PRESS ALSO PUBLISHED A LETTER TO BREZHNEV FROM ALL KATOWICE WORKERS EXPRESSING IN FAWNING, ADULATORY LANGUAGE (ALSO UNTYPICAL FOR POLAND) THEIR ADMIRATION AND GRATITUDE FOR SOVIET HELP IN BUILDING THE LARGEST INDUSTRIAL PROJECT IN POLAND, "A SYMBOL OF POLISH -SOVIET FRIENDSHIP."

D. VISIT OF SOVIET MINISTER OF SHIPBUILDING. ON JUNE 24  
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TRYBUNA LUDU REPORTED THAT SOVIET MINISTER FOR SHIPBUILDING INDUSTRY MIKHAIL YEGOROV HAD VISITED POLAND EARLIER IN THE MONTH (SPECIFIC DATES NOT GIVEN). YEGOROV HAD HAD TALKS WITH PRIME MINISTER JAROSZEWICZ AND MINISTER OF HEAVY AND AGRICULTURAL MACHINERY INDUSTRY ADAMKIEWICZ ON INCREASED SOVIET-POLISH TECHNICAL COOPERATION AND ON SPECIALIZED PRODUCTION COOPERATION IN SHIPBUILDING

.  
ALSO DISCUSSED WERE TECHNOLOGY FOR THE LOCATION AND EXTRACTION OF OIL AND GAS ON THE CONTINENTAL SHELF. YEGOROV VISITED THE POZNAN FAIR ,  
THE CEGIELSKI ENGINE PLANT IN POZNAN, AND THE GDANSK/GDYNIA YARDS.

E. POLISH ECONOMIC COOPERATION DELEGATION TO THE USSR.  
FROM JUNE 19 THRU 23, JUST PRIOR TO THE KATOWICE CEREMONIES, A DELEGATION LED BY VICE PREMIER MIECZYSLAW JAGIELSKI VISITED THE USSR FOR TALKS WITH KOSYGIN AND WITH SOVIET STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY CHAIRMAN VLADIMIR KIRILLIN ON THE "FURTHER

DEVELOPMENT ... OF ECONOMIC AND SCIENTIFIC COOPERATION."  
JAGIELSKI, WHO IS ALSO THE NEWLY APPOINTED HEAD OF THE US SIDE  
OF THE JOINT POLISH-US TRADE COMMISSION, WAS ACCOMPANIED BY GOP  
MINISTER OF SCIENCE, HIGHER EDUCATION AND TECHNOLOGY KALISKI AND THE  
DEPUTY HEAD OF THE PZPR CENTRAL COMMITTEE SECTION ON SCIENCE AND  
EDUCATION, ALFRED STROKA. IN DISCUSSING LONG-TERM COOPERATION PLANS,  
THE POLISH DELEGATION NOTED THAT DURING THE CURRENT  
FIVE-YEAR PLAN 205 POLISH AND 260 SOVIET RESEARCH CENTERS ARE  
WORKING JOINTLY ON 440 SUBJECTS. THE PRESS ALSO REPORTED TALKS  
ON "MORE COMPLEX COOPERATION VENTURES...IN MORE MODERN AND MORE  
EFFECTIVE FORMS...SUCH AS COMMON DESIGN OFFICES." THE POLISH  
DELEGATION VISITED AN INSITUTE IN ARMENIA FOR THE TRAINING OF GAS  
AND OIL INDUSTRY PERSONNEL AND ALSO AN ATOMIC POWER STATION IN  
YEREVAN.

F. POLISH MILITARY DELEGATION TO MOSCOW. ROUNDING OUT THE TENTH,A

POLISH ARMY DELEGATION LED BY DEFENSE MINISTER AND GENERAL OF THE  
ARMY WOJCIECH JARUZESLKI ARRIVED IN MOSCOW JUNE 27 FOR AN OFFICIAL  
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"FRIENDSHIP VISIT" AT THE INVITATION OF SOVIET DEFENSE MINISTER  
USTINOV. ALTHOUGH THIS VISIT WAS MILITARY, WE MENTION IT BECAUSE  
RZT SEEMS TO US VERY POSSIBLE THAT ITS AGENDA MAY HAVE INCLUDED  
ECONOMIC AND TECHNICAL COOPERATION IN AREAS CONNECTED WITH DEFENSE  
PRODUCTION. THE VISIT WAS ALSO RELATED TO THE LAUNCHING OF THE FIRST  
POLISH COSMONAUT ON JUNE 28 IN THE SOYUZ 30 SPACESHIP.

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BEGIN COMMENT. WE SEE THIS ACCELERATED ACTIVITY AS THE LOGICAL OUTGROWTH OF PLANS FOR A NEW ESCALATION OF POLISH-SOVIET ECONOMIC INTEGRATION WHICH GEGAN WITH PRIME MINISTER JAROSZEWICZ'S THREE-DAY TRIP TO MOSCOW AT THE END OF JANUARY. SOME WEEKS AFTER THIS EVENT THE POLISH PRESS GRADUALLY REVEALED THAT THE JAROSZEWICZ TALKS WITH KOSYGIN AND BREZHNEV HAD BEEN CONCERNED WITH INCREASED SOVIET-POLISH CO-PRODUCTION IN SEVERAL SPECIFIC SECTORS--AVIATION INDUSTRY, SHIP-BUILDING, ELECTRONICS, MOTOR VEHICLE AND TRACTOR PRODUCTION, OFFSHORE DRILLING FOR OIL AND GAS, AND ATOMIC POWER PLANTS AMONT OTHER.  
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THESE SAME SECTORS WERE MENTIONED IN CONNECTION WITH SEVERAL OF THE JUNE VISITS. THE AGREEMENTS WHICH JAROSZEWICZ INITIATED IN MOSCOW APPEAR TO HAVE BEEN EXPANDED DURING A TEN-DAY VISIT TO THE USSR BY POLISH PLANNING CHIEF WRZASZCZYK MIN MARCH. AND THEY PROBABLY RECEIVED FURTHER APPROVAL DURING GIEREK'S VISIT THERE IN APRIL.

5. WAS THIS MOVE TOWARD TIGHTER ECONOMIC LINKS WITH THE USSR MADE UNDER SOVIET PRESSURE? WE BELIEVE THAT IT WAS, BUT NO MORE SO THAN IS THE CASE FOR MANY OTHER FEATURES OF LIFE IN POLAND WHICH ARE OBVIOUSLY THE RESULT OF NECESSARY OBEDIENCE TO SOVIET DEMANDS. WE SUSPECT THAT, BEGINNING WITH MOSCOW'S EXTENSION OF A ONE-BILLION RUBLE TRADE CREDIT IN 1976 AND CONTINUED, URGENT POLISH REQUESTS FOR OIL, GRAIN, MEAT, RAW MATERIALS AND OTHER ASSISTANCE ESSENTIAL TO OVERCOME THE COUNTRY'S CRITICAL ECONOMIC PROBLEMS, THE POLES HAVE BEEN IN NO POSITION TO REFUSE SOVIET DEMANDS FOR INCREASED INTEGRATION, NOT JUST WITH WORDS BUT WITH ACTUAL CONTRACTS. HENCE THE SOVIETS HAVE NOT HAD TO BOTHER WITH ARM TWISTING. IT HAS ALL BEEN RELATIVELY EASY AND NOW, IN MID-1978, MINISTER YEGOROV'S DISCUSSIONS OF FURTHER COOPERATION IN SHIPBUILDING TECHNOLOGY IN GDANSK AND VICE PREMIER JEGIELSKI'S CONSIDERATION OF "JOINT DESIGNING OFFICES" IN MOSCOW CAN BE EXPECTED TO HAVE TANGIBLE RESULTS.

6. ANOTHER, PARALLEL ASPECT HAS BEEN THE CONTINUAL EXPANSION OF POLISH-SOVIET TRADE WHICH, ACCORDING TO A RECENT ARTICLE IN TRYBUNA LUDU, WILL EXCEED 30 BILLION HARD-CURRENCY ZLOTYS (ABOUT \$900 MILLION) THIS YEAR, OR ALMOST ONE-THIRD OF ALL POLISH FOREIGN TRADE AND ABOUT 55 PERCENT OF ALL POLISH TRADE WITH "SOCIALIST" COUNTRIES. ALTHOUGH SOME OF LAST YEAR'S INCREASE MAY HAVE BEEN DUE TO THE SOVIET CREDIT, STRENUOUS POLISH EFFORTS TO HOLD DOWN ON HARD CURRENCY IMPORTS ARE ALSO RESPONSIBLE FOR THE CHANGE. THE TRYBUNA LUDU ARTICLE ALSO ALLEGED, AS WAS REPORTED IN EMBASSY MOSCOW'S REF-TEL, THAT POLISH EXPORTS TO THE USSR ARE ALSO MOVING UPWARD, ALTHOUGH NOT FAST ENOUGH TO GIVE POLAND AN OVERALL SURPLUS. THE ARTICLE CITES  
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A GROWTH RATE FOR THE FIRST HALF OF 1978 COMPARED WITH THE CORRESPONDING PERIOD FOR 1977 OF 19 PERCENT FOR POLISH EXPORTS TO THE USSR AND ONLY 14 PERCENT FOR IMPORTS FROM IT.

7. THE FANFARE ACCORDED TO THE KATOWICE STEEL MILL AND THE TOP HEAVY PRESENCE THERE FOR FIRST STATE COMPLETION CEREMONIES OF THE SOVIET STATE COMMITTEE FOR FOREIGN ECONOMIC COOPERATION (SCFER) FURTHER CONFIRMS THAT THIS WILL BE MOSCOW'S SHOWCASE PROJECT FOR POLAND AND ALSO A MAJOR EXHIBIT FOR EASTERN EUROPE IN GENERAL. IT IS OUR UNDERSTANDING THAT SKACHKOV'S ORGANIZATION OPERATES MOSTLY IN DEVELOPING COUNTRIES--IRAQ, INDIA, CUBA--WHERE IT BUILDS COMPLETE PLANTS. HENCE, ITS ACTIVITIES IN POLAND INDICATE A PROJECT ALMOST COMPLETELY PLANNED AND EXECUTED BY THE USSR, NOT MERELY THE PRESENCE OF A FEW TECHNICAL ADVISORS GIVING ASSISTANCE AS NEEDED.

7. SUMMING IT UP, IT IS DIFFICULT AT THE PRESENT TIME TO ASSESS JUST HOW MUCH IMPACT THE NEW INCREASE IN POLISH-SOVIET BILATERAL INTEGRATION THE SOVIETS WANT TO ACHIEVE WILL HAVE ON POLAND'S ECONOMIC RELATIONS WITH THE WEST. WILL THE NET EFFECT BE ONLY SLIGHT OR WILL IT CAUSE SERIOUS CUTBACKS IN AREAS WHICH WOULD ORDINARILY PROSPER? THE ANSWER WILL BE MUCH MORE APPARENT IN TWO YEARS. BUT FOR NOW WE HAZARD THE PREDICTION THAT THE VISIBLE RESULTS WILL BE SPOTTY, PROBABLY SEVERE IN ONLY A FEW SECTORS, AND THAT THE MOST SERIOUS RESULT WILL BE A HARD-TO-MEASURE INTENSIFICATION OF POLAND'S CURRENT ECONOMIC MALAISE--HEAVY, SEVERE HARD CURRENCY INDEBTEDNESS, A PAINFUL INABILITY TO EXPAND HARD-CURRENCY EXPORTS TO DESIRED LEVELS AND THE CONTINUAL, ALMOST FRANTIC SEARCH FOR ADDITIONAL OIL AND ENERGY SUPPLIES FROM NON-SOVIET SOURCES.

8. A SHARP REDUCTION OF PLANNED SALES TO WESTERN BUYERS OF SMALL AGRICULTURAL AIRCRAFT AND HELICOPTERS, MANUFACTURED BY THE PZL AVIATION COMBINE, WOULD BE ONE, DRAMATIC, VISIBLE EXAMPLE OF THE IMPACT OF THIS INTEGRATION ON A SPECIFIC INDUSTRY. BUT WE BELIEVE THAT MUCH OF THE IMPACT WILL BE LESS VISIBLE, A STEADY, LONG-TERM DRAIN ON RESOURCES WHICH COULD OTHERWISE BE CONCENTRATED ON DEVELOPMENTS OF EXPORTS FOR WESTERN MARKETS, SOMETHING WHICH  
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WOULD BOLSTER POLAND'S ECONOMIC TIES WITH WESTERN EUROPE AND THE  
UNITED STATES AND ALSO SOMETHING WHICH THE SOVIET UNION AND ITS  
COMECON SECRETARIAT DO NOT WANT TO HAPPEN. SCHAUFLE

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